

Knotty Challenges in Health Care Costs

By GINA KOLATA

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The numbers, the projections, make health economists shudder.

The average per capita cost of health care in the United States is over \$8,000 annually, double the amount spent in most European countries. The Congressional Budget Office projects that unless costs are brought under control in the next decade, the nation will be spending all of its tax revenues on health care, Social Security, interest on the debt and defense — but mostly health care.

“If we solve our health care spending, practically all of our fiscal problems go away,” said Victor Fuchs, emeritus professor of economics and health research and policy at Stanford University. And if we don’t? “Then almost anything else we do will not solve our fiscal problems.”

Dr. Fuchs, who has been called the dean of American health care economists, has spent five decades studying the health care problem. In his view, what is needed is the sort of major change that comes once in a decade, perhaps, or even just once in a generation.

But change, he believes, will not bubble up from within the health care system itself.

Here, edited and condensed for space, is a recent conversation with Dr. Fuchs about the nation’s health care costs.

Why do we pay so much for health care?

We have higher administrative costs and a very complicated system for billing.

We have a 2-to-1 ratio of specialists to primary care physicians. In other countries the ratio is 50-50. Specialists spend more money and use more exotic interventions and also get paid more per hour of work.

We have more standby capacity. The United States has 4.2 times as many M.R.I. scanners as Canada. We have more malpractice claims.

We have less social support for the poor. Some of the additional spending comes about because we will take a poor sick person in the hospital, discharge them, and then they are back in the hospital for a month.

Drug prices are higher here. And physician incomes are higher.

Is there a large pent-up demand for a single-payer system?

No. Many Americans oppose a larger role for government. Many think their employer is paying for their health insurance, rather than it coming out of their wages.

Do we get anything for all the extra money we spend?

It is not without benefit that we can get a scan more quickly and more conveniently than people in other countries. It is not without benefit that we have specialists. It is not without benefit that we can choose our health plans.

So should we go after each of the contributing factors to our huge costs?

No. If we try to pick things off one by one, we will not accomplish much. Little stopgap measures will not do.

Then what is the big thing we should do to change the system?

The big thing for me is a dedicated value-added tax. It would provide universal coverage, a basic health care system for everyone. But the tax could be used only to pay for basic medical care, and basic medical care could be paid for only with the tax.

We want to subsidize the poor and the sick. The value-added tax is a function of income — the poor and the sick would pay much less. People are free to buy more health insurance, but they would do it with after-tax dollars.

We would do away with Goldman Sachs executives getting a \$40,000-a-year health care plan that is tax-free. Patients would be enrolled in accountable care organizations, like the Kaiser plans in California. The plan gets a risk-adjusted capitation payment for each person enrolled.

But wouldn't that get rid of fee-for-service and private practices? Would people accept that?

I am suggesting an enormous change. It is revolutionary. I don't say it isn't. But nothing else will help solve the problem of cost, access and quality.

Do you think this sort of change could really come to pass?

American history is studded with examples of things that were not politically feasible until they were. The emancipation of slaves. Creation of a strong,

independent central bank. The replacement of the gold standard with fluctuating foreign-exchange rates. A trillion-dollar bailout of the financial industry.

Alexis de Tocqueville said that in the United States things move from the impossible to the inevitable without stopping at the probable. Because we are reaching a crisis and the only thing that will solve it is enormous change, we will have enormous change.

What would be the impetus? Wouldn't doctors and insurers and patients and politicians all be opposed to such a change?

Major changes in health care policy usually occur because of something outside of health policy — large-scale civil unrest, a depression. We cannot expect that change will be generated within a system. There is not enough desire for change, as opposed to desire on the part of many stakeholders not to change.

Given a stimulus from the outside, everything could come tumbling down. One of the things that might trigger it is if China stops buying our bonds. We are financing a huge deficit in Medicare and Medicaid by selling bonds, mostly to China.

Could it be that the current system is the way we want to spend our money? You say most people are insured and most people are perfectly happy with their health care. Why do we care if we devote so much money to health care?

Approximately 50 percent of all the health care spending is now government spending. At the state and local level it is crowding out education, crowding out maintenance and repair of bridges and roads. At the federal level we have a huge deficit financed by borrowing from abroad.

If it were private money and private spending, I would have no objection.